



17 September 2014

Jemena Gas Networks
(NSW) Ltd
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Via email

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Dear Oliver

Jemena Gas Networks 2015-20 Access Arrangement Proposal – PIAC submission

I am writing in response to PIAC's submission on Jemena Gas Networks' (JGN) 2015-20 Access Arrangement Proposal (**proposal**), which was submitted to the Australian Energy Regulator (**AER**) on 30 June 2014.

Jemena is committed to playing our part in ensuring natural gas continues to be a safe, reliable and affordable fuel for cooking, heating and hot water in NSW. To this end, we are very pleased that PIAC supports key aspects of the proposal including:

- a price path that seeks to minimise the impact of rising wholesale gas prices on end-customers, particularly residential customers
- rebalancing the share of revenue recovery between residential/small business customers and large industrial customers to better reflect the longer-term cost of supplying these customers
- the proposed meter reading charge to assist customer switching and make it easier for customers to take up a competitive retail market offer that suits their needs
- providing more assistance to vulnerable customers struggling to pay energy bills, including assisting vulnerable customers to reduce their energy consumption by using gas more efficiently and to help vulnerable customers access funds through a No Interest Loan Scheme (NILS) to replace old their gas appliances with new, more efficient models
- our customer, stakeholder and community engagement including engagement with 'mass market customers' through a series of deliberative forums in metropolitan and regional areas, and providing short and targeted submission material to customer and stakeholders.

Rate of return

We note PIAC's concern that Jemena's proposed rate of return departs from the AER's Guidelines in several areas, and that the long-term interest of consumers is best served by rates of return being consistent with the AER Guidelines.

We supported many elements of the AER Guidelines, and consider that the changes which focus on meeting an overall rate of return objective and considering a wider range of evidence, represent a major improvement in assessing the benchmark costs of raising funds to invest in our network.

Our proposal focuses on several key areas where we consider the AER Guidelines are unlikely to be consistent with promoting the rate of return objectives. The areas where we have departed from the AER guidelines include:

- reflecting the additional material risks our shareholders face when investing in gas utilities in NSW
- capturing the uncertainty associated with estimating the returns our investors expect
- placing a lower value on the credits provided to investors for tax paid at the corporate level.

As the Australian Energy Market Commission (AEMC) indicated when it determined the rate of return objective, the methodologies and the value of parameters used in calculating the rate of return are likely to evolve over time to reflect best practice techniques in assessing the rate of return and to deal with changing market conditions and the availability of new evidence.

We note the Consumer Challenge Panel has raised a number of matters in relation to the AER Guidelines that it considers warrant further investigation.¹ This highlights that a range of stakeholders have questioned whether the AER Guidelines and AER decisions will promote the rate of return objective and the long term interest of customers.

Assisting vulnerable customers

We consider that all industry partners have a role to play in improving the effectiveness of assistance provided to customers to ensure they stay connected to energy services. We are committed to providing more assistance to vulnerable customers struggling to pay energy bills, and to make such initiatives as valuable as possible, it is important for us to draw on the experiences of those industry partners that have expertise in this area.

In particular, we welcome PIAC's guidance on the development and delivery of assistance to vulnerable customers, including the NILS we have included in our proposal.

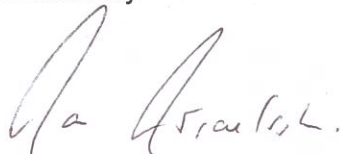
We are committed to continuing and improving the effectiveness of our customer, stakeholder and community engagement. We would welcome continued dialogue with PIAC, including through its role as a member of the JGN Customer Council and

¹ Consumer Challenge Panel, Smelling the roses and escaping the rabbit holes: the value of looking at actual outcomes in deciding WACC, Prepared for the Board of the Australian Energy Regulator, July 2014.

through regular briefings on energy market issues. It is important that this dialogue occur both through the course of the AER's current review as well as in the future, to help us build a strong foundation and ensure that developments are communicated as they occur.

If you or your staff have any questions about our proposal please contact me on 03 8544 9444.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Israelsohn', written in a cursive style.

Ian Israelsohn
General Manager Policy & External Affairs
Jemena Limited